

City of Durham
FY 2012 Budget Development Guidelines
March 21, 2011
INTRODUCTION

Due to closing the FY2010-11 State budget gap with one-time revenues and savings (stimulus funding, expiring tax increases and collection of back taxes), the legislature entered into the FY2011-12 budget development process facing a \$700 million revenue shortfall in addition to the \$4 billion shortfall closed the previous year. The budget gap has been reduced to \$1.98 billion. The Governor plans to close the remaining gap by continuing the temporary sales tax at 5.5%, repealing the transfer to the Public School Building Capital Fund, and other revenue increases and mandatory budget reductions for the UNC System, Medicaid, Community Colleges, Health Plan Changes, Clean Water Management Trust Fund, and other agencies. The net impact of the changes will result in a \$122 million budget surplus for the state. At this point there is no indication that the state plans to reduce any revenues currently shared with municipalities (general fund impact only).

The two largest sources of revenue to support General Fund operations are local property taxes and local sales taxes representing 82% (\$168M) of the fund's budget. For FY2011-12, residential real estate and personal property taxes are expected to grow slightly, sales tax revenue is projected to grow slightly, and overall City revenue growth is projected to remain flat for FY2011-12. As a result, increases in City spending must continue to be limited in FY2011-12, and possibly for several more years. Accordingly, the City Council directs the City Manager to develop a budget for FY2011-12 that limits increases to what is needed to accommodate population growth and cost factors, and clearly identifies funding requirements driven by State and/or federal mandates and major City initiatives. The City Council recognizes that given the limitations for FY2011-12 and beyond, the FY2011-12 budget may require additional reductions in or elimination of services and directs that the City Manager begin to review and evaluate where the City should focus such adjustments consistent with the City Council's priorities.

The next largest source of revenue in the general fund is State Shared Revenues representing 9% (\$18.8M) of the general fund budget. Those revenue sources consist of utility franchise taxes (electricity, telecommunications, piped natural gas and video programming, gasoline tax (Powell Bill), and Beer and Wine Tax.

The City must use a carefully crafted approach to balancing the budget by assessing revenue enhancement opportunities and cost containment. For FY2010-11, the General Fund budget was reduced by approximately \$1,000,000. The FY2011-12 Budget must determine the required investment to preserve priority programs and services.

To continue to meet priority service needs of Durham residents while recognizing current economic realities, the City Manager shall use the following **Budget Development Guidelines to prepare the FY2011-12 Proposed Budget.**

REVENUES

- A **property tax rate** increase will be considered for increases in debt service costs.
- General Fund projected **fund balance** will not be projected to fall below 12% at the end of **FY2011-12**. Projected General Fund balance over 12% may be considered for one-time (non-recurring) expenditures.
- **Non-recurring funds** shall not be directed toward recurring uses.
- Consider **fee** adjustments, as appropriate to align fee revenues with cost of services for better cost recovery rates.
- Proposed **water and sewer rate** increases will not exceed an average of 5%.
- Proposed **stormwater rate** increases will not exceed 10% for National Pollution Discharge Elimination System (NPDES) for required monitoring, maintenance and watershed plan implementation.

DEBT

- Total **debt service** funded through General Fund revenue sources will not be projected to exceed 15% of General Fund appropriations.

EXPENDITURES

To balance expenditures against forecasted revenue reductions, the City Manager shall continue focused discussions with City departments regarding **program and service** priorities, possible areas for elimination, reduction, reorganization, and/or alternative service delivery models that address the performance and efficiency of City programs.

- Program or service level reductions should be considered to balance budget.
 - Program and service level prioritization shall be established within each department.
 - Program and service reductions may result in elimination of authorized positions, reductions in force or employee furloughs within departments, as appropriate, based on service/demand.
- **City employees** are at the core of City services. Attracting and retaining a competent, high quality workforce is essential even in an environment of high unemployment. We recognize that eliminating pay raises for employees cannot be sustained. We must commit to consider employee compensation adjustments as a priority therefore, the following **pay and benefit** components will be evaluated with appropriate adjustments proposed (including one-time lump sum payments):

- Pay for Performance (P4P) pay plan for general employees.
 - Police and Fire pay plans
 - Supplemental Retirement -401K
 - Medical and Dental insurance – the priority will be to limit increased costs for the City and employees.
- To the extent funding is available; priority will be given to those initiatives that support the **strategic plan**.
- Funding for **deferred maintenance** will be maintained at the FY2010-11 level of \$500,000 with an aggregate not to exceed \$1,000,000.
- A dedicated **street resurfacing fund** to provide pay-as-you go funding or for debt service payments for voter approved debt will be established at a minimum of \$500,000.
- Funding for the **Non-City Agency** program will not be included in the FY2011-12 budget. (Capacity grant recipients were paid the 3rd year/final payment in FY2010-11.) Departments are encouraged to consider contracts with NCAs that support departmental programs and activities.
- Funding for **capital projects** will be provided in the form of pay-as-go funding or for debt service payments, and will be established at a minimum of \$500,000.
- **Public transit services** including consideration of route adjustments such as the downtown connector and fare free services options should be evaluated within the 3.2 cents per \$100 allocated for Transit Services.
- **Fleet** funding will be maintained to replace vehicles with costs not to exceed \$3,000,000 for the General Fund.
- **New positions** will only be funded for a partial year when warranted by the timing of the actual operational impact on the budget.
- \$138,000 will be provided to support the contract with the NC Administrative Office of the Courts the **Domestic Violence Court Contract**.
- \$150,000 will be provided to fund agencies that support **homelessness and homeless prevention services**.
- Commit \$437, 500 per year for 4 years (FY2012-13 through FY2012-16) to complete existing **housing activities** in SWCD & NECD.